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FISCAL IMPACT STATEMENT

LS 6607

BILL NUMBER: HB 1008

NOTE PREPARED: Jan 16, 2004

BILL AMENDED: Jan 15, 2004

SUBJECT: Local Unit Option Income Tax.

FIRST AUTHOR: Rep. Lytle

FIRST SPONSOR:

BILL STATUS: CR Adopted - 1st House

FUNDS AFFECTED: X **GENERAL**
DEDICATED
FEDERAL

IMPACT: State & Local

Summary of Legislation: (Amended) The bill authorizes a fiscal body of a city, town, or county to impose an additional income tax. The bill requires at least 60% of the revenue to be used for property tax relief.

Effective Date: (Amended) Upon passage.

Explanation of State Expenditures: (Revised) A separate account would be established within the state General Fund for the deposit of revenue collected from a local unit option income tax (LUOIT). The tax revenue would be distributed to the unit on or before the twentieth day of each month. The distributions would be made upon warrants issued by the Auditor of State to the Treasurer of State. The Department of State Revenue would be required to report a unit's account balance semiannually before December 30 and June 30, respectively. The Department would need to revise the withholding and IT-40 tax forms to allow for the reporting of a LUOIT.

Current cost for the Department of State Revenue to administrate, audit, and collect local taxes is approximately \$0.51 per \$100 of revenue.

PTRC & Homestead Credit: Under the bill, 60% of revenue generated by a LUOIT would be used to target property tax relief to noncorporation and nonutility taxpayers. The relief may be applied to all eligible taxpayers or targeted to certain taxpayer classes, certain property classes, or certain geographic areas. Given these provisions, it is unclear what the affect of the relief would have on the basis of the state Property Tax Replacement Credits (PTRC) or state homestead credits. The affect would depend on the method of application of the relief.

Explanation of State Revenues:

Explanation of Local Expenditures: (Revised) Under the bill, a fiscal body of a unit (city, town, or county) would be able to adopt a LUOIT. However, the unit would first be required to provide notification to the unit's parent county and other municipalities in the county of the *introduction* of an ordinance to adopt the LUOIT. Introduction and adoption of an ordinance to impose a LUOIT would not be allowed in the same day. If a LUOIT were adopted, the tax would be required to be paid and collected in the same manner as the county option income tax (COIT). Therefore, an established LUOIT would be paid to the Department of State Revenue at the same time as the state's Individual Adjusted Gross Income Tax.

Explanation of Local Revenues: (Revised) *Summary-* The following table provides estimates of a **total statewide impact**, assuming **all** units statewide adopted LUOIT under the bill. The final column presents the estimated statewide property tax relief at 60% of the revenue from LUOIT as required under the bill.

Imposed Rate	Statewide Estimated Revenue Generated By LUOIT (FY 2005)*	60% Statewide Estimate For Property Tax Relief
1.0%	\$1,168.2 M	\$700.9 M
0.75%	\$876.2 M	\$525.7 M
0.5%	\$584.1 M	\$350.5 M
0.25%	\$292.1 M	\$175.3 M
* Based on January 12, 2004, Technical Committee Revenue Forecast.		

The above estimate also assumes that LUOIT would be adopted by units as soon as possible. This would mean an adoption of the resolution by July 2004, where the tax would become effective January 1, 2005.

Under the bill the first distribution of revenue would be required to commence not later than 30 days after the effective date of an ordinance that would adopt LUOIT. However, the Department would most likely need additional time to set up the mechanisms (new or revised withholding reporting forms) to process and make payments of LUOIT to adopting units. Additionally, employers would most likely not begin adjusting payrolls for withholding LUOIT until about two months after adoption of the tax.

Tax Imposition Requirements- Under the bill, the fiscal body of a unit (city, town, or county) would be able to impose a LUOIT at an initial rate of 0.25%, 0.5%, 0.75%, or 1.0%. The maximum rate of a LUOIT by a unit on the adjusted gross income of a unit income taxpayer would not be allowed to exceed 2.0%. However, if the unit's parent county imposed either a LUOIT, a county adjusted gross income tax (CAGIT), a county option income tax (COIT), or a county economic development income tax (CEDIT), the combined unit's LUOIT and county's tax rate would not be allowed to exceed 2.0% of a unit income taxpayer's adjusted gross income. A county's CAGIT, COIT, and CEDIT rate that currently is allowed by law to exceed the 1.25% maximum combined rate would not count against the 2.0% combined unit and county tax rate. (Current law allows, with exceptions, a maximum combined CEDIT and COIT rate of 1.0% and a maximum combined CEDIT and CAGIT rate of 1.25%.)

The bill would allow an adopting unit to incrementally increase the LUOIT rate annually by 0.25% until

reaching 1.0%.

Two or more units could adopt ordinances to impose a joint LUOIT. The ordinances would be required to state the distribution of revenue to units that act together to adopt a joint LUOIT.

Nonresident Rates- Under the bill, the LUOIT rate imposed on nonresident unit taxpayers would be 0.25 of the rate imposed on resident unit taxpayers. The combined rate of LUOIT, CAGIT, COIT, or CEDIT may not exceed 0.5% on nonresident taxpayers' adjusted gross income.

Revenue Uses- As stated above, adopting units would be required to devote at least **60%** of revenue generated by LUOIT for targeted property tax relief for all property taxpayers, certain classes of taxpayers and property, or real or personal property located in specific geographic areas within the unit. The property tax relief generated by LUOIT revenue would exclude taxpayers that are corporations or public utility companies to the extent allowed by the Constitution of the State of Indiana.

A unit that was able to replace their entire property tax revenue (other than property tax levies that cannot be eliminated due to payment of bonds, leases, or other obligations) with less than 60% of the revenue generated by the unit's LUOIT would not have to adhere to the requirement to use 60% of LUOIT revenue for property tax relief.

State Agencies Affected: Auditor of State; Department of State Revenue; Treasurer of State.

Local Agencies Affected: Local units of government.

Information Sources: *Indiana Handbook of Taxes, Revenues, and Appropriations*; Bob Walls, Department of State Revenue; Technical Committee Revenue Forecast, January 12, 2004.

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